

## PART 2012 - AUDITS AND INVESTIGATIONS

## SUBPART A - Audits

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## PART 2012 - AUDITS AND INVESTIGATIONS

## Subpart A - Audits

§ 2012.1 Purpose.

This Instruction establishes the procedures to follow when an audit report on United States Department of Agriculture (USDA) Rural Development mission area activities is received from the Office of Inspector General (OIG) and General Accounting Office (GAO). It provides the policies, procedures, and responsibilities for rendering management decisions and taking final actions on recommendations resulting from OIG audit reports. Actions included in this Instruction primarily pertain to OIG unless the action specifically includes GAO.

§ 2012.2 Policy.

Rural Development employees will request official identification from anyone visiting their offices that identifies themselves as OIG and GAO auditors. Employees will be cooperative with OIG and GAO auditors and make available all information, files, records, and correspondence requested. Managers will: promptly evaluate findings and recommendations reported by OIG and GAO auditors, determine proper actions in response to audit findings and recommendations, and complete, within established timeframes, all actions that correct or otherwise respond to the matters brought to management's attention. When a potential problem or significant weakness is reported before issuance of a report, managers will take prompt action when sufficient information is provided. Managers will take all necessary actions to fully comply with the requirements for a management decision on recommendations resulting from OIG audit reports and on final actions, including the establishment and disposition of monetary claims. Management decisions include a determination or a plan for those actions deemed necessary to be taken on each recommendation, proposed dates for implementation, and agreement on the monetary amounts. For any monetary amounts that are owed to the Government, an accounts receivable must be established before reaching management decision and a Letter of Determination must have been sent to individuals found to have received unauthorized financial assistance notifying them of the debt due and the amount. The audit process for management decisions and final actions is described in the flow chart in Exhibit A of this Instruction.

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§ 2012.3 Scope.

(a) OIG and GAO have authority to audit all program operations and administrative functions within the Rural Development mission area at any time. OIG has authority to oversee the work of other auditors performed in connection with Rural Development programs.

(b) OIG audit findings may include irregularities which could result in formal adverse action requiring fiscal charges and disciplinary, civil, or criminal actions. However, such adverse actions are usually made by investigations. The investigative report only reports the facts, it draws no conclusions nor does Investigation initiate any of these actions. Their report may be the basis for the courts or agency to take action. (See RD Instructions 2012-B and C.)

§ 2012.4 References.

The following acts, regulations, and directives define the authorities and responsibilities, and establish procedures, timeframes and other requirements for management decisions and final actions on OIG audit recommendations:

(a) Public Law ( P.L.) 96-304, "Supplemental Appropriations and Rescission Act of 1980" (Section 305).

(b) 31 U.S.C. 3711 et seq., "Federal Claims Collection Act of 1966."

(c) 4 CFR 101 through 105, "Federal Claims Collection Standards."

(d) Office of Management and Budget (OMB) Circular A-73 Revised, "Audit of Federal Operations and Programs."

(e) OMB Circular A-50 Revised, "Audit Follow-up."

(f) GAO Manual for Guidance of Federal Agencies, Title 2 - Accounting, Chapter 3 - Internal Control Standards.

(g) OMB Circular A-129 (Rev.), "Managing Federal Credit Programs."

(h) OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

(i) 5 U.S.C. App. "Inspector General Act of 1978, as amended," P.L. 95-452, as amended).

## § 2012.4 (Con.)

- (j) 5 U.S.C. App. "Inspector General Act Amendments of 1988."  
(P.L. 100-504).
- (k) Departmental Regulation (DR) 1700-2, "OIG Organization and Procedures."
- (l) DR 1720-1, "Audit Follow-up, Management Decisions and Final Actions."
- (m) Treasury Financial Manual (TFM) 6-8000.
- (n) 31 U.S.C. 1105, 1113, 3512, "Federal Managers' Financial Integrity Act of 1982" ( P.L. 97-255).
- (o) 31 U.S.C. 7501 et seq., P.L. 98-502, "Single Audit Act of 1984" (P.L. 98-305) and P. L. 104-156, "Single Audit Act Amendments of 1996."
- (p) 7 CFR 3020, "Audits."
- (q) DR 2130-1, "Requirements for the Establishment and Management of Accounts Receivable Arising from Audits."
- (r) National Finance Center, Title III, Billings and Collection Manual, Bulletin Number 87-1, "Utilization of the Administrative Billings and Collections (ABCO) System."

§ 2012.5 Definitions.

Disallowed costs/loans . Questioned costs/loans or unsupported costs/loans that OIG recommends for recovery and management, in a management decision, has sustained or agreed should not be charged to the Government.

Entrance conference . A conference requested by OIG to inform Rural Development management of beginning work on a survey or an audit. In this conference, OIG identifies the objectives, scope, and methodology of the audit and estimates timeframes for completion of field work and report writing.

Exit conference . A conference requested by OIG with Rural Development management after an audit report is in draft. This conference allows the Agency and auditors to verbally concur or not-concur on findings and recommendations before official draft report is issued.

Final action . For each recommendation, the measures taken to comply/implement the specific actions of the management decision. Final action on an audit is the completion of all corrective actions in the audit. See Exhibit A of this Instruction for the processing steps to be performed for final action.

Final audit report . A report issued by OIG including the written Agency comments to the official draft report, and further auditor comments. This report is transmitted by memorandum that includes status of the report and follow-up actions needed for management decision and final action.

Management alert of program or administrative deficiency . A management alert or report issued by OIG to Agency management covering audit matters considered to be of sufficient importance to warrant immediate attention or corrective action.

Management decision . A written determination by an Agency management official of the specific actions necessary to comply with each recommendation and the validity of any monetary amounts associated with each recommendation. See Exhibit A of this Instruction for the process needed to reach management decision on each recommendation and on the entire audit.

Official draft . A report issued by OIG after the exit conference corrections have been made. This report requires a written reply usually within 30 days of the date of the draft report unless otherwise specified by OIG. The agency response will become a part of the final audit report and is the beginning basis for reaching management decisions on the audit recommendations.

Questioned costs/loans .

- (1) A cost that is questioned by OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document (including loan documents) governing the expenditure of funds;
- (2) A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- (3) A finding that the expenditure of funds for the intended purposes is unnecessary or unreasonable.

## § 2012.5 (Con.)

Recommendation that funds be put to better use . A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- (1) Reductions in outlays;
- (2) Deobligation of funds from programs or operations;
- (3) Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
- (4) Cost not incurred by implementing recommended improvements related to the Agency operations, a contractor, or grantee;
- (5) Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
- (6) Any other savings which are specifically identified.

Regional Inspector General - Audit (RIG-A) . The OIG manager for the region of the country that is responsible for the audit assignment. Exhibit B of this Instruction is a directory for all of the OIG regions.

Rural Development Audit Liaison . The Director of the Financial Management Division (FMD) in the National Office is Rural Development's audit liaison.

Single audit . An audit required for Non-Federal entities that expend \$300,000 or more in a year in Federal awards.

Unsupported cost/loan . A cost that is questioned by OIG because it found that, at the time of the audit, such cost is not supported by adequate documentation.

USDA Audit Liaison . The Office of the Chief Financial Officer (OCFO) is the audit liaison for the Department.

§§ 2012.6 - 2012.10 [Reserved]

§ 2012.11 Frequency of audits .

OIG prepares an annual plan of audit activity to be conducted each year. The plan includes both scheduled and requested audits. However, some audits may be undertaken which are not in the plan or are not requested by the mission area.

(a) The Rural Development Audit Liaison will notify the Agency Administrators, Associate Administrators, Deputy Administrators, Assistant Administrators, and State Directors of the OIG audit plans.

(b) A State Director can ask for changes in OIG audit plans and can ask for special audits as needed. Requests for audits are directed to the appropriate RIG-A, with a copy to the Rural Development Audit Liaison. See Exhibit B of this Instruction for a directory of the RIG-As.

§ 2012.12 Responsibilities .

(a) Departmental Audit Resolution Official . The Department's Audit Resolution Official, the Deputy Secretary, will:

(1) Render management decisions on recommendations, resulting from audit reports when agreement is not reached between OIG and the Under Secretary and the Agency; and

(2) Ensure the initiation and completion of final actions resulting from management decisions rendered.

(b) Under Secretary for Rural Development . The Under Secretary will review and attempt to resolve disagreements on management decisions before elevation to the Deputy Secretary.

(c) Agency Administrator . The Agency Administrator will:

(1) Be personally responsible for assuring management decisions are rendered and final actions are taken in accordance with the management decisions, and attempt to resolve disagreements on State audit management decisions before elevation to the Under Secretary;

(2) Assure management decisions and final actions are consistent with laws and regulations;

§ 2012.12(c) (Con.)

(3) Assure agreement is reached and corrective actions completed for all single audit reports within the same timeframes as OIG audit reports.

(4) Delegate management decision and final action authority within the agency, as appropriate; and

(5) Ensure the timeliness and quality of management decisions and final actions are a factor in determining bonuses for Senior Executive Service members.

(d) Rural Development Audit Liaison . The Rural Development Audit Liaison will:

(1) Ensure that written management decisions are made on audit recommendations and provide the information to OIG on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator for reaching agreement;

(2) Work with OIG to achieve agreement on management decisions on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;

(3) Ensure that management decisions are timely and that final actions fully comply with the management decisions, which includes compliance with timeframes and agreement on monetary amounts on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;

(4) Coordinate with OCFO from the date of the management decision through completion of the final actions on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;

(5) Provide OCFO with documentation on final actions on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;

(6) Notify OCFO within 15 days when completed final actions do not comply with management decisions on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;



(7) Report revised management decision to OCFO which will inform OIG of the reasons for any revised management decision made during the semi-annual reporting period, including revised dollar amounts associated with recommendations and any deviations to the corrective action plan;

(8) Establish appropriate accounting and collection controls over amounts determined to be due to the Government on audits having nationwide jurisdiction or State audits that have been elevated to the Administrator;

(9) Establish an automated system to monitor and track audit recommendations to ensure management decisions are rendered within the legislatively mandated 6-month period after report issuance and final actions are taken within 1 year of the management decision. This system will also monitor and track final actions resulting from management decisions. As a minimum, the system will provide:

(i) Accurate and complete documentation of management decisions rendered on audit recommendations, the status and progress related thereto, and status on final actions. The records should be retained for a period of 8 fiscal years after the effective date of the last final action; and

(ii) An audit trail of management decisions and final actions for each audit for use by OIG, OCFO, and Rural Development.

(10) Periodically analyze audit recommendations, management decisions, and final actions to determine trends and system-wide problems and to recommend solutions;

(11) Provide for a periodic evaluation of the management decision and final action process to determine if the results are effective, efficient, prompt, and proper; and

(12) Notify selected State Offices of inclusion in a nationwide audit and upcoming auditor visits to field offices.

(13) Coordinate with the OCFO from the date of receipt of Single Audit reports through completion of corrective actions, which includes tracking and monitoring on all audit recommendations, adhering to the same timeframes as OIG audits.

§ 2012.12 (Con.)

(e) Rural Development State Director. The State Director will designate oversight responsibility to a State Management Control Officer (MCO) in accordance with RD Instruction 2006-M who will serve as the State's focal point of contact for all OIG audit activity. The State Director and MCO will:

- (1) Ensure that written management decisions are made on audit recommendations and provide the information to OIG on audits within their State jurisdiction;
- (2) Work with OIG to achieve agreement on management decisions on audits within their State jurisdiction;
- (3) Ensure that management decisions are timely and that final actions fully comply with the management decisions, which includes compliance with timeframes and agreement on monetary amounts on audits within their State jurisdiction;
- (4) Coordinate with OCFO from the date of the management decision through completion of the final actions on audits within their State jurisdiction;
- (5) Provide OCFO with documentation on final actions on audits within their State jurisdiction, with copy to FMD;
- (6) Notify OCFO within 15 days when completed final actions do not comply with management decisions on audits within their State jurisdiction;
- (7) Work with National Office officials to achieve agreement on Single Audit findings and provide documentation showing completion of each audit recommendation;
- (8) Establish appropriate accounting and collection controls over amounts determined to be due to the Government on audits within their State jurisdiction;
- (9) Establish an automated system to monitor and track audit recommendations to ensure management decisions are rendered within the legislatively mandated 6-month period after report issuance and final actions are taken within 1 year of the management decision. This system will also monitor and track final actions resulting from management decisions. As a minimum, the system will provide:

(i) Accurate and complete documentation of management decisions rendered on audit recommendations, the status and progress related thereto, and status on final actions. The records should be retained for a period of 8 fiscal years after the effective date of the last final action; and

(ii) An audit trail of management decisions and final actions for each audit for use by OIG, OCFO, and Rural Development.

(10) If a management decision has not been reached within 90 days of the audit release date, notify the Rural Development Audit Liaison to alert the Administrator of the possibility that the audit will be elevated;

(11) Inform Area and Local Offices within the State of OIG audit findings and recommendations by written State issuance; and

(12) Evaluate audit findings to determine training needs when developing the State's Annual Training Plan.

§§ 2012.13 - 2012.20 [Reserved]

§ 2012.21 Distribution of reports by OIG .

OIG will send copies of each final audit report to the person responsible for taking action on the recommendations (e.g., State audits to the appropriate State Director; nationwide audits to the Rural Development Audit Liaison) with a transmittal memo indicating the approximate date for initial reply. Additional copies of nationwide and state audit reports are distributed to the Rural Development Audit Liaison.

§ 2012.22 Restriction on distribution of OIG audit reports .

(a) OIG will control the release of all OIG reports (DR 1700-2). Draft audit reports are not to be released, shared, or discussed with any individual outside the Department except with the specific authorization of the Inspector General, and circulation is to be limited within the Department only to those officials who have a need to know.

(b) Any requests for release of information from an audit report will be sent to the National Office, Attention: Rural Development Audit Liaison for referral to OIG.

§ 2012.23 Action on reports .

The following reporting requirements are mandatory on all draft and final audit reports.

(a) Management alert of program or administrative deficiency .

Immediately upon receipt of a management alert action will be initiated to correct the condition reported. A written reply will be sent to the RIG-A issuing the report within the specified action date. A copy of the reply will be sent to the Rural Development Audit Liaison.

(b) Discussion draft . A written report prepared by the OIG auditor at the completion of field work. It is the basic document used for obtaining Agency and auditors' verbal concurrence or non-concurrence on findings and recommendations at the exit conference. The discussion draft report will be issued before an exit conference called by OIG. Sometimes this draft is elevated to official draft at the time of the exit conference.

(c) Official draft . Immediately upon notification that the discussion draft has become the official draft or upon receipt of an official draft, appropriate action will be taken to reach a management decision on each recommendation in the audit. Exhibit A of this Instruction provides the specific processing steps for reaching management decisions and final actions. A written reply will be sent to OIG, usually within 30 days or within the time specified in the transmittal memorandum. A copy of the reply will be sent to the FMD Audit Liaison in the National Office.

(d) Final audit report . Immediately upon receipt of the final audit report, further action will be taken on each recommendation that is without management decision. The written Agency comments to the draft report and further auditor comments will be included in the final report. This report is transmitted by memorandum that includes the status of the report and follow-up actions needed for management decision and final action. Exhibit A of this Subpart provides the specific processing steps and timeframes for reaching management decisions and final actions. Audit issues are legislatively mandated to have management decisions within 6 months after the final report is issued.

§ 2012.24 Audit correspondence .

All correspondence about audits will:

- (a) List the report number and title;
- (b) Show the distribution of copies (FMD must receive a copy);
- (c) Refer to the audit recommendation and/or audit result being answered;
- (d) Include appropriate exhibits and attachments when referenced in the reply; and
- (e) Forward a copy of correspondence that pertains to OIG audits to: Rural Development Audit Liaison, FMD in the National Office.

§§ 2012.25 - 2012.30 [Reserved]

§ 2012.31 Tracking of deficiencies and follow-up on corrective actions .

Departmental Regulation 1720-1 establishes policy that managers will promptly evaluate findings and recommendations reported by auditors, determine proper actions in response to audit findings and recommendations, and complete, within established timeframes, all actions that correct or otherwise respond to the matters brought to management's attention. Follow-up actions are monitored by an automated tracking system to determine the status of recommendations for a management decision and final action. Implementation of corrective actions for each recommendation are reported to the USDA, OCFO, with a copy to the Rural Development Audit Liaison.

§ 2012.32 Retention of reports .

- (a) OIG audit reports and all related correspondence will be retained by the National Office and applicable State Office for 8 fiscal years after the audit has final action.
- (b) OIG audit reports and related material with restrictive marking must be kept in locked cabinets or other locked repository when not in use.

§§ 2012.33 - 2012.40 [Reserved]

§ 2012.41 GAO reports.

GAO conducts audits and investigations independent of OIG. OIG is the Department liaison with GAO. The National Office Liaison Officer will keep State Directors informed regarding GAO reviews, investigations, and surveys within their States. In turn, State Directors will forward copies of all correspondence with GAO to the National Office, Attention: Financial Management Division.

§§ 2012.42 - 2012.50 [Reserved]

Attachments: Exhibits A and B.

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Exhibit A not automated see Manual.

## Directory of OIG Regional Offices

	<u>AUDIT</u>	<u>INVESTIGATIONS</u>
REGION & STATES SERVED	REGIONAL INSPECTOR GENERAL ADDRESS/TELEPHONE	SPECIAL AGENTS IN CHARGE ADDRESS/TELEPHONE
<b>NORTH ATLANTIC</b> CT, ME, MA, NH, NJ, NY, PR, RI, VT, VI		26 Federal Plaza Room 1409 New York, NY 10278 (212) 264-8400 FAX (212) 264-8416
<b>NORTHEAST</b> CT, DE, DC, MD, ME, MA, NH, NJ, NY, PA, PR, RI, VA, VT, VI, WV	5601 Sunnyside Ave. Suite 2-2230 Beltsville, MD 20705-5300 (301) 504-2100 FAX (301) 504-2437	
<b>NORTHEAST</b> DE, DC, MD, PA, VA, WV		5601 Sunnyside Ave. Suite 2-2230 Beltsville, MD 20705-5300 (301) 504-2000 FAX (301) 504-2025
<b>SOUTHEAST</b> AL, FL, GA, KY, MS, NC, SC, TN	401 W. Peachtree St., NW. Room 2328 Atlanta, GA 30365-3520 (404) 730-3210 FAX - (404) 730-3221	401 W. Peachtree St., NW. Room 2329 Atlanta, GA 30365-3520 (404) 730-3170 FAX (404) 730-3181



**Directory of OIG Regional Offices (CON.)**

	<b><u>AUDIT</u></b>	<b><u>INVESTIGATIONS</u></b>
<b>REGION &amp; STATES SERVED</b>	<b>REGIONAL INSPECTOR GENERAL ADDRESS/TELEPHONE</b>	<b>SPECIAL AGENTS IN CHARGE ADDRESS/TELEPHONE</b>
<b>MIDWEST</b> IL, IN, MI, MN, OH, WI	111 N. Canal St., Suite 1130 Chicago, IL 60606-7295 (312) 353-1352 FAX (312) 353-3017	111 N. Canal St., Suite 1130 Chicago, IL 60606-7295 (312) 353-1358 FAX (312) 353-8963
<b>SOUTHWEST</b> AR, LA, OK, TX, NM	101 South Main St. Room 324 Temple, TX 76501 (254) 743-6565 FAX - (254) 298-1373	
<b>SOUTHWEST</b> AR, LA, OK, TX		101 South Main St. Room 311 Temple, TX 76501 (254) 743-6535 FAX (254) 298-1358
<b>GREAT PLAINS</b> CO, IA, KS, MO, MT, NE, ND, SD, WY, UT	9435 Holmes Road Room 233 Kansas City, MO 64131 (816) 926-7667 FAX (816) 926-3861	9435 Holmes Road Room 233 Kansas City, MO 64131 (816) 926-7606 FAX (816) 926-7716

**Directory of OIG Regional Offices (CON.)**

	<b><u>AUDIT</u></b>	<b><u>INVESTIGATIONS</u></b>
<b>REGION &amp; STATES SERVED</b>	<b>REGIONAL INSPECTOR GENERAL ADDRESS/TELEPHONE</b>	<b>SPECIAL AGENTS IN CHARGE ADDRESS/TELEPHONE</b>
<b>WESTERN</b> AK, AZ, CA, HI, ID, NV, OR Territory of Guam, Trust Territories of Pacific, WA	600 Harrison St. Suite 225 San Francisco, CA 94017 (415) 744-2851 FAX (415) 744-2871	
<b>WESTERN</b> AK, AZ, CA, HI, ID, NV, OR, NM, Territory of Guam, Trust Territories of Pacific, WA		600 Harrison Street Suite 225 San Francisco, CA 94107 (415) 744-2887 FAX (415) 744-2896
<b>FINANCIAL &amp; ADP OPERATIONS</b> National Information Technology Center, KC, MO, Fort Collins; CO; FO St. Louis, MO; NFC; FSA KC Mgmt. Office & KC Commodity Office; Risk Management Agency	9435 Holmes Road Room 220 Kansas City, MO 64131 (816) 926-7657 FAX (816) 926-1773	

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